

JANUARY 18, 1978

OIL PRICES: THE CARROT OR THE STICK

ANNCR:

THE QUESTION OF THE UNITED STATES' VULNERABILITY TO CHANGES IN OIL SUPPLIES AND PRICES HAS COME UNDER CLOSER STUDY FOLLOWING THE RECENT OPEC DECISION TO IMPOSE A SIX-MONTH OIL PRICE FREEZE, AS WE HEAR IN THIS BACKGROUND REPORT FROM VOA'S VERA HIRSCHBERG. VOICE:

THE UNITED STATES IMPORTS FORTY-FIVE THOUSAND MILLION DOLLARS WORTH OF OIL A YEAR FROM THE OPEC CARTEL. AND THE ECONOMIC BURDEN IMPOSED BY THESE IMPORTS IS A MATTER OF DEEP CONCERN TO AMERICAN POLICY-MAKERS. THE CARTER ADMINISTRATION, MANY MEMBERS OF CONGRESS AND SOME ECONOMISTS BELIEVE THAT THE UNITED STATES MUST ACT TO CUT ITS DEPENDENCE ON FOREIGN OIL SUPPLIES AND ITS VULNERABILITY TO OPEC PRICE INCREASES. BUT THEY DIFFER ON MEANS TO THAT END.

ROBERT PINDYCK, AN ECONOMICS PROFESSOR AT THE MASSACHUSETTS INSTITUTE OF TECHNOLOGY, WARNS THAT OPEC PRICING DECISIONS COULD BE AFFECTED IN THE LONG RUN BY SUCH NON-ECONOMIC DECISIONS AS ANOTHER MIDDLE EAST WAR OR A POLITICAL UPHEAVAL IN A KEY OPEC COUNTRY. WRITING IN THE WALL STREET JOURNAL, HE SAYS THAT GUARD AGAINST THESE EVENTUALITIES, THE UNITED STATES SHOULD DEVELOP A STRATEGIC OIL RESERVE. BUT BARRING SUCH EVENTS, HE BELIEVES OPEC PRICES WILL REMAIN RELATIVELY STABLE, GROWING NO MORE THAN TWO PER CENT A YEAR IN CONSTANT DOLLARS -- THAT IS, ACCOUNTING FOR INFLATION -- FOR THE NEXT TEN YEARS.

PROFESSOR PINDYCK SAYS THAT THE OPEC NATIONS MUST TAKE INTO ACCOUNT THREE ECONOMIC CONSIDERATIONS IN PRICING ITS OIL: THE

WAY THAT DEMAND FOR OPEC OIL RESPONDS TO PRICE CHANGES; THE PROBLEM OF DWINDLING SUPPLIES; AND DIFFERENCES IN AIMS AMONG OPEC MEMBERS. HE SAYS THAT IF ECONOMIC RATIONALITY DOMINATES OPEC'S FUTURE DECISIONS, THE CARTEL WILL PROBABLY RAISE OIL PRICES NO MORE THAN FIVE TO TEN PERCENT IN 1978. THIS PRICE RISE, PROFESSOR PINDYCK SAYS, WOULD TAKE INTO ACCOUNT A SIX PERCENT INFLATION RATE AND THE DETERIORATING VALUE OF THE DOLLAR.

THE GENERAL ACCOUNTING OFFICE, THE INVESTIGATIVE ARM OF THE UNITED STATES CONGRESS, SEES THE PROBLEM FROM A DIFFERENT POINT OF VIEW. A RECENT GAO STUDY RECOMMENDS THAT THE UNITED STATES USE ITS TREMENDOUS ECONOMIC LEVERAGE TO ENSURE ACCESS TO FOREIGN OIL AT REASONABLE PRICES. THE STUDY CRITICIZES THE GOVERNMENT FOR NOT FLEXING ITS ECONOMIC MUSCLES ENOUGH WITH THE OPEC CARTEL. IN THE REPORT'S WORDS: "AN ILLUSION OF UNITED STATES IMPOTENCE HAS BEEN CREATED BY A FIXATION ON ITS PETROLEUM MARKETPLACE WEAKNESS, RATHER THAN ITS MANY STRENGTHS OUTSIDE THE ZONE OF DOLLARS FOR OIL."

THE STUDY EMPHASIZES OPEC DEPENDENCE ON THE UNITED STATES AS A SUPPLIER OF MILITARY AND CIVILIAN GOODS, SERVICES AND TECHNOLOGY. AND IT URGES THE DEPARTMENTS OF STATE AND ENERGY TO PRESENT A PLAN TO CONGRESS BY JULY 1 ON HOW TO ASSURE THE UNITED STATES STEADY OIL SUPPLIES AT REASONABLE PRICES. THE PLAN, SAYS THE GAO, SHOULD INCLUDE MEASURES TO STRENGTHEN AMERICAN ACCESS TO FOREIGN OIL THROUGH MODIFICATIONS OF CURRENT OIL IMPORT CONTRACTS AND ACTIVE ENCOURAGEMENT OF NON-OPEC ENERGY RESOURCES.

THE GAO STUDY CONCLUDES THAT THE UNITED STATES SHOULD SEEK TRADE-OFFS FROM ITS EXPORTS TO OPEC COUNTRIES AND SHOULD BE

PREPARED TO REDUCE ITS EXPORTS IF OPEC INCREASES ITS PRICES OR CUTS PRODUCTION TO EXTRACT POLITICAL CONCESSIONS.

THE CARTER ADMINISTRATION HAS REACTED NEGATIVELY TO THE GAO REPORT ON THE GROUNDS THAT THE UNITED STATES HAS MORE TO GAIN THROUGH COOPERATION THAN THROUGH CONFRONTATION WITH OPEC. IT ALSO BELIEVES THAT AN ECONOMIC BOYCOTT OF OPEC WOULD BE COUNTERPRODUCTIVE AND THAT IN RELATIONS WITH THE OIL PRODUCERS U.S. ECONOMIC STRENGTH CAN BEST BE USED AS A CARROT THAN A AS A STICK.

JS/PBM